

LBNL – PROCUREMENT STANDARD PRACTICES

Section: 32 Subcontract Financing

Subject: 32.1 Payments

PURPOSE: This standard practice (SP) outlines the procedures for processing payment requests.

POLICY: All subcontracts must specify payment procedures. Invoice payments and subcontract payments will be made as close as possible to the payment due date specified in the subcontract.

SCOPE: This SP applies to all subcontracts.

DEFINITIONS:

Advance Payments Advance payments are advances of money by the Laboratory to a subcontractor before, in anticipation of, and for the purpose of complete performance under a subcontract. Because they are not measured by performance, advance payments are the least preferred method of subcontract financing.

Certification Certification is a condition for disbursement that the certifying official (i.e., an employee of the Laboratory trained and authorized to certify at the appropriate level specific to the subcontract) has reviewed the invoice against the purchase order or service order, and that the work, for which the invoice submitted for payment is made, has been satisfactorily performed.

Invoice An invoice is a demand for Laboratory disbursement of monies to a subcontractor under a subcontract for goods or services accepted by the Laboratory.

Milestone Payments Milestone payments are payments made to a subcontractor based on the acceptance of pre-established, mutually agreed upon milestones or deliverables.

Partial Payments Partial payments are a method of payment made by the Laboratory for delivered and accepted goods and services that are only a portion of the subcontract requirements or for the attainment of certain conditions which have been mutually agreed upon, such as time, level of effort, etc.

Progress Payments Progress payments are payments made to the subcontractor based upon a percentage of costs incurred as work progresses under the subcontract.

Prompt Payment Discount A prompt payment discount is an invoice payment reduction offered by the subcontractor if payment is made by the Laboratory prior to the payment due date. The due date is calculated from the date the subcontractor's invoice is received in Accounting or the date receipt is evident, whichever is later.

Receiving Report A receiving report is written or automated evidence that indicates Laboratory receipt of goods delivered or services performed by the subcontractor.

Subcontract Financing Subcontract financing means a government disbursement of monies to a subcontractor under a subcontract clause or other authorization prior to acceptance of supplies or services by the government. Subcontract financing methods include advance payments, progress payments, and milestone payments.

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PROCEDURES:

Subcontract Financing

Subcontract financing by the government must be provided only to the extent **it is** actually needed for prompt and efficient performance, considering the availability of private financing. Subcontract financing must be administered so as to aid, not impede, the acquisition. At the same time, any undue risk of monetary loss to the government through the financing shall be avoided.

If the subcontractor is a small business concern, special attention shall be given to meeting the subcontractor's subcontract financing need.

The following order of preference shall be considered when a subcontractor requests subcontract financing, unless an exception would be in the Laboratory's interest in a specific case.

- Private financing without government guarantee. It is not intended, however, that the subcontractor be required to obtain private financing at unreasonable terms or from other agencies.
- Progress payments based on costs at customary rates.
- Loan guarantees.
- Progress payments based on costs with unusual terms.
- Advance payments.

Payment Due Dates

When negotiating payment due dates, full consideration must be given to the time reasonably required by the Laboratory to process invoices.

Prompt Payment Discounts

Prompt payment discounts offered by the subcontractor should be accepted and, if economically justified, will be subsequently taken by Accounting.

Solicitations and Subcontracts

Subcontracts must state the payment terms and any prompt payment discount terms and contain adequate invoice instructions to ensure compliance with subcontract requirements.

Advance Payments

Advance payments are authorized for:

- Rent;
- Tuition;
- Insurance premiums;
- Expenses of investigations in foreign countries;
- Extension or connection of public utilities for government owned buildings or installations;
- Subscriptions to publications;

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- Purchases of supplies or services in foreign countries if the purchase price does not exceed \$10,000 or the equivalent amount of the applicable foreign currency and the advance payment is required by the laws or government regulations of the foreign country concerned;
- Enforcement of the customs or narcotics laws; or
- Other transactions as approved by DOE.

Milestone Payments

Subcontracts with milestone payments are usually negotiated between the Laboratory and the subcontractor when the lengthy period of performance may be financially burdensome to the subcontractor and there is no severable receivable until subcontract completion. Normally, specific fixed price amounts for milestone achievements are negotiated, stated in the subcontract, and submitted on the payment request. Payment is authorized after achievement of the milestone is verified with the requester.

Progress Payments Partial Payments

For specific procedures, see SP 32.2, *Progress Payments*.

Subcontracts allowing for partial payment usually specify the amounts of partial payment. If certain conditions have been negotiated that must occur before payment is authorized, occurrence of these conditions must be verified.

Basis of Payment

Payment to a subcontractor will be based upon receipt of a proper invoice and evidence of receipt or satisfactory subcontract performance. Payments **must** be supported by a receiving report or other written documentation, such as signed receipts, authorized invoices, **certification**, etc.

Invoices

Accounting promptly annotates each invoice with the actual date it receives the invoice or payment request. This date or the date of evidence of receipt, whichever is later, is used to establish the date payment is due.

In general, payment to a subcontractor of an invoice is made by the 30th day after Accounting has received the invoice or request.

If a prompt payment discount is to be taken, payment will be made as close as possible to, but no later than, the end of the discount period.

Invoices Requiring Procurement Specialist's Approval —

Invoices **over \$100,000 for all high value (>\$1 million) non-commercial blanket subcontracts and other subcontracts requiring certification and procurement specialist review (i.e. certain cost reimbursement and construction subcontracts)** must be scrutinized for conformance to subcontract terms regarding description, quantity, unit of measure, unit price, extended price of goods or services, and shipping and payment terms. Discrepancies or errors must be promptly brought to the attention of the subcontractor. **The processing of invoices from the subcontractor must meet the following requirements before payment can be made:**

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- The invoiced deliverables must be determined to be within the subcontract scope;
- The invoiced deliverables must be determined to have been received or performed;
- Invoices for blanket subcontracts must be associated with a legitimate service order (release);
- All disputes must be resolved with the subcontractor in a timely manner; and
- Appropriate supporting documentation must be provided.

Closeout

Unless elements exist that require further action and resolution, a subcontract may be closed upon evidence of final payment and/or evidence of receipt of goods or services. (See SP 42.4, *Subcontract Closeout*.)

RESPONSIBILITIES:

Procurement Specialist

The procurement specialist must:

- Verify invoices for conformance to subcontract terms, when the procurement specialist's approval is required;
- Ensure that adequate time for the Laboratory's processing of invoices is considered when negotiating payment due dates;
- Ensure that evidence of acceptance of goods or services is promptly forwarded to Accounting after acceptance or approval; and
- Verify that final payment has been made and/or goods or services have been received or performed before the subcontract is closed.